First Trust
Monday Morning OUTLOOK
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Financial System Healing

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Every month, the National Association of Realtors reports on existing home sales, which are closings on previously-owned homes. These sales have been doing very well lately, up in four of the past five months and up almost 10% from a year ago. We expect further gains when the next report comes out Thursday morning.

But these solid headlines are missing what is probably the most important point about existing home sales. In the past year, all-cash buyers have dropped to 22% of sales from 32% a year ago. So, even as total sales have risen almost 10%, mortgage-backed purchases have risen more than 25%.

In our view, there's no better sign that the financial system, at least as it relates to consumers, is getting closer to normal.

Meanwhile, the average household is in the best financial shape in a generation. The financial obligations ratio measures the share of after-tax income that households need to service their debts and other recurring obligations, so it covers mortgages, rent, car loans and leases, as well as debt service on credit cards, student loans, and other lending arrangements, like signature loans.

Back in late 2007, just before recession started, these payments were the <u>largest</u> share of after-tax income on record, going back to 1980. But after the huge consumer debt reduction during and after the recession, for the past few years, these payments have been the <u>smallest</u> share of after-tax income since the early 1980s.

Payment rates on credit cards – the share of principal balances and finance charges that consumers are paying every month – are the highest on record (starting in 1992), according to Standard & Poor's. At the same time, delinquency rates are at an all-time low.

And remember the wave of foreclosures that was supposed to bring down the economy? Well, according to the NY Federal Reserve Bank, the number of consumers with new foreclosures showing up on their credit reports is the lowest on record going back to 1999, even lower than during the housing boom.

In other words, consumers are in a position to borrow more while banks are finally starting to boost lending.

No wonder auto sales have fully recovered from the disaster in 2008-09. In the past twelve months, Americans have bought cars and light trucks at a 17 million annual rate. For 2015 as a whole, a pace of 17.5 million is within reach, which would top the previous record of 17.4 million set back at the peak of the internet boom in 2000.

This doesn't mean everything is right with the financial system. Far from it. The private system could have healed earlier and faster without Dodd-Frank and federal micromanagement. Someone needs to explain to the Fed that having a Ph.D. in economics doesn't mean you know how to run a bank, not even close. This is one reason why the US economy remains a Plow Horse several years into recovery.

Meanwhile, the public portion of our financial system – a part of it we wish didn't even exist – is trying to expand again, regardless of the disaster it caused in the prior decade. For example, the Federal Housing Finance Agency (FHFA), which regulates Fannie Mae and Freddie Mac and is led by a presidential appointee, has encouraged loans where the down-payment is as low as 3%. Luckily, so far, Fannie and Freddie haven't expanded in any noticeable way, at least not yet.

The bottom line is that the US financial system still has a way to go before it's fully healed, but like most of the rest of the economy it's also clearly moving in the right direction.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-17 / 7:30 am	Empire State Mfg Survey – Aug	4.5	**5.5**	-14.9	3.9
8-18 / 7:30 am	Housing Starts – Jul	1.183 Mil	**1.095 Mil**		1.174 Mil
8-19 / 7:30 am	CPI – Jul	+0.2%	**+0.2%**		+0.3%
7:30 am	"Core" CPI – Jul	+0.2%	**+0.2%**		+0.2%
8-20 / 7:30 am	Initial Claims Aug 15	271K	**269K**		274K
9:00 am	Existing Home Sales – Jul	5.430 Mil	**5.540 Mil**		5.490 Mil
9:00 am	Philly Fed Survey – Aug	6.8	**8.9**		5.7
9:00 am	Leading Indicators – Jul	+0.2%	**+0.1%**		+0.6%